

# Tax\$avers

## RECORDKEEPING

*Must know recordkeeping rules  
for every taxpayer*

1040

Label

(See page 11.)

Use the IRS  
label,  
Otherwise,  
Please print  
or type.

Presidential  
Election Campaign  
(See page 11.)

Filing Status

Check only  
one box.

Exemptions

Department of the Treasury—Internal Revenue Service  
U.S. Individual Income Tax Return  
For the year Jan. 1, 1996, or other tax year beginning

Your first name and initial  
If a joint return, spouse's first name and initial

Home address (number and street)  
City, town or post office, state, and ZIP

Do you want \$3 to go to  
If a joint return, does your

Single  
Married  
Head of household

If more than six  
dependents,  
see the  
instructions  
for line



# RECORDKEEPING

Imagine you've been selected by the IRS for an audit. Do you have the proper documentation to support your income and deductions? What does the IRS look for to validate your claimed income, deductions or tax credits? A little work now can mean little or no headaches later should you need to defend your return.

Generally, you need to consider three things when defining the record keeping requirements for the Internal Revenue Service.

1. What to Keep
2. How Long to Keep Records
3. What is Required as Proof

## WHAT TO KEEP

The requirements of what to keep vary depending on the area under review by the IRS. To assist you in keeping good records, a basic retention checklist is presented for your use. Key record keeping requirements for specific areas on the return are reviewed in "What is Required as Proof."

### *What to Keep Checklist*

- |                                      |  |
|--------------------------------------|--|
| ✓ 1040 Tax Return                    | ✓ All IRS supporting Schedules         |
| ✓ W-2s                               | ✓ Canceled Checks                      |
| ✓ Work Papers                        | ✓ Bank Statements                      |
| ✓ 1099s                              | ✓ Invoices                             |
| ✓ 1098s                              | ✓ Cash/Other Receipts                  |
| ✓ Record of purchase and sale        | ✓ Investment Records                   |
| ✓ Payroll Stubs                      | ✓ Record Log for Tips, Travel, Mileage |
| ✓ Divorce Decree and related records | ✓ Donation Acknowledgments             |
| ✓ Account Statements                 | ✓ Other Notes; proof of transaction    |



## HOW LONG TO KEEP RECORDS

Per the IRS, “You must keep your records as long as they are important for any federal tax law.” Usually this means:

- ✓ **3 years** from the date your return is filed  
OR
- ✓ **2 years** from the date the tax is paid  
OR
- ✓ **6 years** after the return is filed if income is under reported by more than 25%  
OR
- ✓ **Indefinite**, if you failed to file a return or the return is false or fraudulent

The default date is the later of any of the above.

### *Helpful Hints:*


- If you file your return early (prior to April 15th) the IRS still uses April 15th as the filing date.
- If in doubt, keep all your 1040s and supporting schedules indefinitely.

### *Exceptions*

Make sure you keep your return for a longer period of time for two reasons:

1. **Valuation of Property.** You will need to keep returns AND supporting proof of expenses to determine the value of property you own and then later sell. Common examples are stocks and your home. Make sure all purchase and selling documents are retained. Keep track of all expenditures that add to the value of your property as they will be used to help reduce any potential capital gains when you sell.

2. **IRA and Retirement plan information.** Keep all records relating to IRAs and any pre-tax



contributions to retirement plans such as 401(k)s. This is especially important if you contributed some funds to your plan in after-tax dollars. When you take the funds out at a later date you will need to prove that you have already paid taxes on the funds. Keep these records until all the funds have been distributed.

## **WHAT IS REQUIRED AS PROOF**

You've kept your records for the right time frame, but the IRS says you must prove your claimed deductions. The trick here is that "PROOF" has a sliding definition depending upon what is being reviewed.

### *The Basics*

Generally, proof of payment is a canceled check or cash receipt. If neither is available, an account statement is often acceptable. To be adequate proof the following must be clearly shown:

- Amount
- Date of Payment
- Who the Payment was made to (payee)
- Purpose of Payment

### *Specific Retention Requirements*

Adoption:	Bills, canceled checks, legal agreements, receipts
Child Care:	Bills, canceled checks, statement from child care provider
Medical & Dental:	Bills, canceled checks, statements, receipts, mileage log

## ***Specific Retention Requirements (Continued)***

Mileage Log:	Date, miles driven, to/from destinations, purpose, PLUS; expenses for tolls, parking fees, taxi and bus fares
Interest:	Statements, notes, canceled checks, Form 1098 (mortgage) or Form 1099 (interest and dividends)
Taxes:	Form W-2, canceled checks, statements
Miscellaneous:	Receipts, canceled checks, statements
Charitable Contributions:	

### **Cash Donation**

<u>Amount</u>	<u>Required Proof</u>
less than \$250	Canceled Check and Receipt from Charity
more than \$250	Same as above PLUS charity acknowledgment or payroll records

### **Donation of Property**

<u>Amount</u>	<u>Required Proof</u>
less than \$250	Receipt from charity with date; location; name; and property description PLUS written record of each item donated
\$250-\$500	Above PLUS acknowledgment from the charity
\$500-5000	All of the above PLUS additional records PLUS file Form 8283
\$5001+	All the above PLUS substantiation



## COMMON QUESTIONS & ANSWERS

**Q. *When is a credit card transaction deemed tax deductible? When the transaction is made or when you pay the credit card bill? What proof is required?*** Credit card transactions are tax deductible when the transaction is made. Example: You make a contribution to the Boy Scouts using a credit card on December 31st. You pay the credit card bill on January 15th. The contribution can be deducted in the year the transaction was conducted, not when the credit card bill was paid. Your credit card statement is then used as proof of the transaction along with any receipts.

**Q. *My bank does not return canceled checks, can the duplicate copy be used?*** Yes, but only in conjunction with the bank statement showing the checks clearing. You may also use a copy of a paid invoice or statement. In a pinch, often you can get copies of canceled checks from your bank for a fee.

**Q. *Should I keep track of non-payroll deposits in my savings account?*** Yes! If you are audited, the IRS will often look into your bank accounts and ask for explanations of any deposits over and above your claimed income. Often these deposits are gifts, reimbursements for employee expenses or simply transfers between accounts.

This publication provides only summary information regarding the subject matter. Please call with any questions on how this information may impact your situation.